

ARIZONA CORPORATION COMMISSION MEETING MINUTES

DATE: November 22, 2004

TIME: 9:30 a.m.

PLACE: Arizona Corporation Commission, 1200 W. Washington Street, Room 100, Phoenix, Arizona 85007

ATTENDANCE: No Quorum of Commissioners. See list in Attachment 1.

TOPIC: DEMAND-SIDE MANAGEMENT WORKSHOP

MATTERS DISCUSSED:

Barbara Keene of the Commission Staff welcomed everyone and each participant made a self-introduction. Ms. Keene then reviewed the homework assignments from the October 26 workshop. Participants were encouraged to propose language on the following topics: the definitions of Load Management, Distributed Generation ("DG") and Combined Heat and Power ("CHP") and how they relate to Applications Eligible for Funding, and Self-Direction.

The group decided to include a definition of Load Management in the DSM Definition section of the policy. Tom Hines of APS provided three different definitions for participants to review. The discussion focused on ideas about whether or not to include a statement about load factor in the definition and appropriate examples of load management measures. Ultimately, the group decided on a definition that states, "Load Management: deliberate actions sponsored by a utility to reduce peak demands or improve system operating efficiency. Examples include direct control of customer demands through utility-initiated interruption or cycling, thermal storage, and education to encourage customers to shift load."

Participants were encouraged to propose language to address DG and CHP applications that would be eligible for funding. Rebecca Chavez of TEP/UNS proposed a definition of distributed generation that included a provision that only incidental amounts of power be interconnected to the grid. Brian O'Donnell of Southwest Gas reasoned that this definition was too limiting. He pointed out that for DG to be eligible for DSM funding, it would need to reduce energy usage or demand and be cost-effective, and thus, these additional qualifiers were unnecessary. Mr. O'Donnell's proposed language stated that any DG or CHP programs must demonstrate heat recovery is part of the project in order to be eligible for DSM funding.

The group also engaged in a discussion about how much of a DG project would be eligible for funding. Representatives from several electric utilities argued that only the incremental energy efficiency benefits should be eligible to receive support. Mr. O'Donnell maintained that it would be difficult or impossible to determine the incremental portion of a distributed generation project. Some participants felt that if distributed generation reduces peak demand and/or is located in a load pocket, thereby reducing transmission and distribution load, the project does meet the definition of demand-side management. Conversely, several parties felt that it is appropriate to fund distributed generation projects (without an energy efficiency component such as heat

recovery) with DSM funds. The group discussed the fact that distributed generation is a means by which a customer can participate in demand response programs and disagreed as to whether the instrument (DG) to take action (DR) should explicitly be funded. Eventually the group compromised on language stating, "CHP may be eligible for DSM funding because it includes heat recovery. This heat recovery must displace heat, water heating, or other loads. DG may be used by customers as a means to participate in a demand response program."

The final homework assignment involved the topic of self-direction. Ms. Chavez provided a list of questions and issues to be addressed in the Staff report. In addition, Angie Krainik of APS requested that customer accountability be added to the list. The group generally agreed that the current policy language is adequate with the understanding that Staff will address this topic in depth in the report. Staff invites parties to submit comments on the subject of self-direction by December 6, 2004.

Following the review of homework assignments, Ms. Keene highlighted several remaining sections of the draft policy that required discussion including performance incentives, lost net revenues, and renewable energy resources.

With respect to renewable energy resources, the group generally agreed that these projects should be funded by the environmental portfolio standard resources. There was agreement that the topic of renewable energy projects would not be addressed in the DSM policy, but would be discussed in the Staff report.

Performance Incentives and Lost Revenue

The group discussed the Commission's general policies with respect to penalties imposed on companies and decided that penalties for good-faith efforts to meet stated DSM goals would not be consistent. Consequently, language about penalties for failing to achieve DSM goals was removed.

There is disagreement on the subject of lost revenue recovery. The utility companies are in favor of recovery while Jeff Schlegel noted that SWEEP is opposed to it. Mr. Schlegel also noted that SWEEP is opposed to "other financial incentives" that are not performance-based. Representatives from utility companies are in favor of allowing the possibility for that type of incentive, even if it is not a likely event. The language will remain in the policy but was revised to remove the condition that the commission could only review the matter during a rate case. Staff invites parties to submit comments on the subject of performance incentives and lost revenue by December 6, 2004.

Following these topics, the group took one final excursion through the draft policy to tighten up the language and fix any grammatical issues. Notable stops include the following:

Goal and Objectives

This section was reorganized and the term "benefits in dollars" was added as an example of a policy goal.

Planning

The group engaged in significant discussion about how, when, and how often portfolio and program plans must be filed. Staff requested that language be changed to reflect that Staff may (not shall) develop templates, tables, and other reporting media. Disagreement over annual versus biennial portfolio plan filing continues and will be addressed in the Staff report. Staff invites parties to submit comments on the subject of filing frequency by December 6, 2004.

Cost Effectiveness

There was significant discussion about the quantification of environmental improvements resulting from DSM measures but no language was altered. The sentence on time horizons was revised to state, "Time horizons shall reflect the expected life of the savings resulting from DSM measures."

Key Terms

There was a lengthy discussion that resulted in revisions to some of the key terms including: combined heat and power (CHP), distributed generation, incremental benefits, net benefits, and Total Resource Cost Test. In addition, the Comparison of Cost-Effectiveness Tests table was modified.

Commission Review and Approval

This entire section was moved so that it follows the Planning section. The group agreed to add "performances incentives" to the list of items to be included in DSM proposals.

Fuel Neutrality

Participants again stated their positions on the concept of fuel neutrality. At issue was the decision from the prior workshop to delete the language in italics: Electric/Natural gas utility program funds shall be used for electric/natural gas measures *that reduce electricity/natural gas use*. Representatives from the electric utilities view this statement (without the omitted language) as tolerant towards programs that could lead to fuel switching. Others view this language as maintaining the policy of fuel neutrality while allowing for flexibility in evaluating a program when the baseline state is uncertain. Examples of potentially uncertain baseline cases include new construction, new installations, or new technologies.

The group also renewed the discussion of source energy analysis from the previous workshop. Parties maintained their positions with respect to the appropriateness of using source energy analysis to evaluate DSM programs. Southwest Gas is very much in favor of using source energy analysis whereas Arizona Public Service and Tucson Electric do not find it to be an appropriate methodology. The most contentious matter is the conversion factors to be used in the analysis. Representatives of the electric companies object to using factors that have not been studied and developed specifically for Arizona. The proponents of source energy analysis contend that, ideally, Arizona-specific conversion factors would be used if they existed but in the absence of such information, they wish to use the best available data.

Fuel Neutrality continues to be one of the few divisive topics in the DSM draft policy. There have been many discussions regarding the appropriateness of a policy that strictly prohibits fuel switching, what types of programs constitute fuel switching, and how to deal with fuel neutrality in the context of new construction, new installations, or new technologies. It is clear that the

group will not come to an agreement regarding many of these issues, and they will be addressed in the Staff report. Staff invites parties to submit comments on the subject of fuel neutrality by December 6, 2004.

Program Administration and Implementation

Language was changed to clarify that the Commission can establish independent program administrators who would be subject to all applicable requirements.

Leveraging and Cooperation

The second sentence in this section was removed.

Wrap Up

As this was the final DSM workshop prior to the submission of the Staff report, the group discussed the next steps in the process. First, Staff invites parties to submit comments on any issues relating to the draft DSM policy by December 6, 2004. Specifically, Staff has solicited comments on the subjects of fuel neutrality, self-direction, performance incentives and lost revenues, and the frequency of filing portfolio plans. Staff intends to file the Staff report by the end of December, 2004 in the Track B Docket No. E-00000A-02-0051, et al. Parties will have an opportunity to file comments on the Staff report.

Staff would like to thank everyone who has participated in the DSM workshops. They have been productive and informative.

Erin Casper
Utilities Division

Attendees at the DSM Workshop
November 22, 2004

Name	Organization
David Berry	Western Resource Advocates
Jana Brandt	Salt River Project
William Brayden	Brayden Automation
Erin Casper	Arizona Corporation Commission Staff
Rebecca Chavez	Tucson Electric Power / UNS Electric & Gas
Tim Coley	Residential Utility Consumer Office
Dennis Criswell	Arizona Electric Power Cooperative
Linda Douglas	Tucson Electric Power
John Duncan	Arizona Public Service
Jeanne Erickson	Student – Arizona State University
Charlie Gohman	Arizona Energy Office
Andrea Gonzalez	Office of Robert S. Lynch
Tom Hines	Arizona Public Service
Grant Holmes	ANL Distributors/Volttech, Inc.
Marshall Hunt	RHA
Eileen Jacobson	UNS Electric & Gas
Barbara Keene	Arizona Corporation Commission Staff
Steve Koepp	AHS
A.K. Krainik	Arizona Public Service
Gary Mirich	Energy Strategies
Brian O'Donnell	Southwest Gas
Terry Orlick	Arizona Public Service
Jesus M. Reza	Morenci Water & Electric
Russ Romney	Martinez & Curtis
Jeff Schlegel	Southwest Energy Efficiency Project
Vivian Scott	Southwest Gas
Chuck Skidmore	City of Scottsdale
Martha Wright	Southwest Gas